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RUEHXR/RWANDA COLLECTIVE
RUEHEG/AMEMBASSY CAIRO 4005
RUEHFR/AMEMBASSY PARIS 2768
RUEHRO/AMEMBASSY ROME 5305
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 4449
RUEH DU/AMCONSUL DURBAN 0187

UNCLAS NAIROBI 001505

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SUBJECT: KENYA REDUCES TARIFFS ON WHEAT AND CORN IMPORTS

REFS: (A) STATE 53353 (B) STATE 533346 (C) STATE 52628
(D) NAIROBI 1122 AND PREVIOUS
(E) FAS NAIROBI GAIN KE8012 (F) STATE 1336

¶1. Summary: Kenya has reduced its duties on imported wheat from 35 percent to 10 percent and plans to import 297,000 tons of corn duty free. Corn normally is assessed a 50 percent import duty. This fulfills a commitment made by the Minister for Agriculture William Ruto to the Ambassador during a meeting on May 8, 2008 (Ref F). It is expected that these tariff reductions will help rein in, to some degree, the spiraling cost of food in Kenya. End Summary.

¶2. Minister for Finance Amos Kimunya delivered the first budget of the Grand Coalition Government. The budget speech covered recent economic developments, restoration of the economy, facilitation of investment, creation of a robust financial sector, improvement of infrastructure, poverty reduction and promotion of equitable distribution of resources. Minister Kimunya noted that the country faced several challenges that include regional disparities, poverty, unemployment, low agricultural production, and high inflation. The theme of the budget speech was 'working together to build a Cohesive, Equitable and Prosperous Kenya.'

¶3. Compared to the 2007 budget, the 2008 budget comes at a time when the country has almost reversed gains attained in previous years. In 2007 the economy was growing at a rate of 7 percent and looking up. The violence that erupted at the beginning of the year coupled with the rising cost of production (due to increased cost of inputs and rising international oil prices) led to a record high inflation of 31.5 percent during the month of May, 2008. Given that food accounts for about 87 percent of inflation and with existing grain stocks forecast to last only until August 2008 the Minister of Finance put emphasis on fixing food prices and putting in place policies that stimulate local food production.

¶4. Realizing the importance of food security for Kenyans the Minister zero rated Value Added Tax (VAT) on wheat flour, milk and

corn flour. To further cushion the poor against the rising cost of living he also zero rated the VAT on bread and rice, and reduced the import duty on wheat from 35 % to 10 %. The government also promised to increase its Strategic Grains Reserve by 2 million (90 kg) bags, to 6 million (90 kg) bags. The SGR imports will be duty free.

15. The Government further promised to play a proactive role in sourcing fertilizer at competitive international price to help stabilize domestic prices. In consultation with the governments of Uganda and Tanzania, plans are underway to set up a regional fertilizer factory to ensure long term sustainable supplies.

16. The Minister emphasized the Grand Coalition Government's commitment to restoring the economy and putting it back on a higher growth path through boosting investments to drive long-term growth. This remains largely a wait-and-see situation.

Slutz